



Labor & Industries Tips:

FOR BUSINESSES

What IS an experience factor, anyway?

You own a business in Washington and you've just received a notice from the Department of Labor and Industries that your "experience factor" for this year has risen from 1.54 to 1.75. This means your company's workers' compensation insurance premium is going up. But what is an "experience factor?"

While "experience factor" *sounds* like another one of those confusing bureaucratic terms, it's really self-descriptive. It's the number that indicates how your company's claims experience stacks up against the industry, and it's used to modify the premium rate you pay into the State Fund to cover workers' compensation claims costs. A clear understanding of your "experience factor" can save you big dollars in insurance costs. Here's how it works for three different companies:

- A new company (ABC Co.) has no experience with on-the-job injuries. So it automatically gets an experience factor of 1.0. That means a new company pays the base rate for the industry.
- An older company (DEF Co.) with a better-than-average accident record is rewarded with a lower experience factor — like 0.6, for example. When this experience factor is multiplied into the equation, it brings down the premium by 40 percent. Thus companies with good safety records and sound claims management programs are rewarded with lower industrial insurance premiums.
- Another, more accident-prone firm (XYZ Co.) has a bad history. So it will be penalized with a high experience factor, perhaps as high as 2.0. This company's accident and medical fund premiums will be higher than those of an average company.

Your company's current experience factor is calculated at the beginning of the year on the basis of your claims track record during a rolling three-year window, four to five years earlier. This means accidents that happened more than four or five years ago no longer have a major impact on your rates. Second, an accident that happens tomorrow will affect your experience factor — and your premiums — for the next several years.

This all means it makes the most sense to focus your efforts on preventing future accidents and tracking your injured workers' claims. What you do — or don't do — about accident prevention will affect your company's premiums and profits for years to come.

To assist you, Labor and Industries offers more than 1,000 no-fee workshops statewide each year to help you avoid workplace injuries and occupational diseases, and to advise you on the best ways to be involved with your worker after an injury. Contact your local L&I office for availability in your area.



**State of Washington
Department of
Labor and Industries**